PROXY STATEMENT

Solicitation of Proxies

This proxy statement is furnished by the Board of Directors (the "Board") of Philip Morris Companies Inc., 120 Park Avenue, New York, New York 10017, in connection with its solicitation of proxies for use at the annual meeting of stockholders to be held on Thursday, April 21, 1994, at 9:30 a.m., at the Philip Morris Manufacturing Center, 3601 Commerce Road, Richmond, Virginia, and at any and all adjournments thereof. Mailing of the proxy statement will commence on or about March 7, 1994. Holders of record of Common Stock, $1 par value (the "Common Stock"), at the close of business on March 3, 1994 will be entitled to one vote for each share held on all matters to come before the meeting. On February 22, 1994, there were outstanding 877,325,235 shares of Common Stock.

A proxy on the enclosed form may be revoked at any time before it has been exercised. Unless the proxy is revoked or there is a direction to abstain on one or more proposals, it will be voted on each proposal and, if a choice is made with respect to any matter to be acted upon, in accordance with such choice. If no choice is specified, the proxy will be voted as recommended by the Board. The proxy will also serve to instruct the administrator of the Company's dividend reinvestment and voluntary cash payment plan and the trustee of any defined contribution plan sponsored by the Company how to vote the plan shares of a participating stockholder or employee.

Voting at the Meeting

A majority of the votes entitled to be cast on matters to be considered at the meeting constitutes a quorum. If a share is represented for any purpose at the meeting, it is deemed to be present for all other matters. Abstentions and shares held of record by a broker or its nominee ("Broker Shares") that are voted on any matter are included in determining the number of votes present. Broker Shares that are not voted on any matter at the meeting will not be included in determining whether a quorum is present.

The election of each nominee for director requires a plurality of the votes cast. In order to be approved, the votes cast for the selection of auditors and for each stockholder proposal must exceed the votes cast against such matters. Abstentions and Broker Shares that are not voted on the matter will not be included in determining the number of votes cast.

Stockholders' proxies are received by the Company's independent proxy processing agent, and the vote is certified by independent inspectors of election. Proxies and ballots that identify the vote of individual stockholders will be kept confidential, except as necessary to meet legal requirements, in cases where stockholders write comments on their proxy cards or in a contested proxy solicitation. During the proxy solicitation period, the Company will receive vote tallies from time to time from the inspectors, but such tallies will provide aggregate figures rather than names of stockholders. The independent inspectors will notify the Company if a stockholder has failed to vote so that he or she may be reminded and requested to do so.

As used herein, the term "Company" or "Philip Morris" includes Philip Morris Companies Inc. from July 1, 1985 and Philip Morris Incorporated prior to July 1, 1985 and, where appropriate, their subsidiaries.

ELECTION OF DIRECTORS

General Information

The Board has the responsibility for establishing broad corporate policies and for the overall performance of the Company although it is not involved in day-to-day operations. Members of the Board are kept informed of the Company's businesses by various reports and documents sent to them each

month as well as by operating and financial reports made at Board and committee meetings by the Chairman of the Board and other officers. In addition, the Board has an annual two or three-day meeting to review the Company's Five-Year Plan.

Regular meetings of the Board are held each month, except July. The organizational meeting follows immediately after the annual meeting of stockholders. The Board held eleven regular monthly meetings in 1993.

Committees of the Board

Various committees have been established by the Board to assist it in the discharge of its responsibilities. Certain of these committees are described below. The biographical information on the nominees for director, which begins on page 3 of this proxy statement, includes committee memberships currently held by each nominee.

The **Audit Committee** meets with management, the Company's independent accountants and its internal auditors to consider the adequacy of the Company's internal controls and other financial reporting matters. The Audit Committee recommends to the Board the engagement of the Company's independent accountants, discusses with the independent accountants their audit procedures, including the proposed scope of the audit, the audit results and the accompanying management letters and, in connection with determining their independence, reviews the services performed by the independent accountants. This committee, which also monitors compliance with the Company's Business Conduct Policy, consists of six non-employee directors and met four times in 1993.

The **Committee on Public Affairs and Social Responsibility** reviews and monitors the Company's policies, practices and programs with respect to public issues of importance to stockholders, the Company and the general public to the extent those matters are not the responsibility of other committees of the Board. This committee met four times in 1993. Thirteen directors have been designated members of this committee.

The **Compensation Committee**, consisting of five non-employee directors, held five meetings in 1993. This committee determines cash remuneration arrangements for the highest paid executives and administers the Company's stock option and incentive compensation plans. The report of the Compensation Committee on Executive Compensation appears on pages 9 to 11 of this proxy statement.

The **Corporate Employee Plans Investment Committee**, consisting of six directors, held seven meetings in 1993. This committee oversees the investment of certain employee benefit plan assets.

The **Executive Committee** has authority to act for the Board on most matters during intervals between Board meetings. Eight directors have been designated members of this committee, which met once in 1993.

The **Finance Committee** consists of nine directors and met four times in 1993. It monitors the financial condition of the Company and advises the Board with respect to financing needs and dividend policy.

The **Nominating Committee** consists of eight non-employee directors and met three times in 1993. This committee reviews the qualifications of candidates suggested by Board members, management, stockholders and other sources, considers the performance of incumbent directors in determining whether to nominate them for reelection and recommends to the Board a slate of nominees for election as directors.

The Nominees

It is proposed that eighteen directors be elected to hold office until the next annual meeting of stockholders and until their successors have been elected. The Nominating Committee has recommended to the Board the persons named below as management's nominees and, unless otherwise marked, a proxy will be voted for such persons. J.A. Cordido-Freytes and T. Justin Moore, Jr. are not eligible for reelection. Each of the nominees currently serves as a director and was elected by the stockholders at the 1993 annual meeting, except for Stephen M. Wolf, who was elected by the Board on November 24, 1993. All nominees attended at least 75% of the aggregate number of meetings of the Board and all committees of the Board on which they served during 1993, except Rupert Murdoch.

Although management does not anticipate that any of the persons named below will be unable or unwilling to stand for election, a proxy, in the event of such an occurrence, may be voted for a substitute designated by the Board. However, in lieu of designating a substitute, the Board may amend the By-Laws to reduce the number of directors.

Elizabeth E. Bailey
John C. Hower Professor of Public Policy & Management, The Wharton School of the University of Pennsylvania, Philadelphia, PA

Director since 1989

Age: 55

Dr. Bailey assumed her present position on July 1, 1991, having served from July 1990 to June 1991 as a professor of industrial administration at Carnegie-Mellon University and as a visiting scholar at the Yale School of Organization and Management. From 1983 to 1990, she was dean of the Graduate School of Industrial Administration of Carnegie-Mellon University. Dr. Bailey serves as a director of the College Retirement Equities Fund, CSX Corporation, Honeywell Inc. and National Westminster Bancorp Inc. and as a trustee of the Brookings Institution and the National Bureau of Economic Research. She is a member of the Audit and Public Affairs and Social Responsibility Committees.

Murray H. Bring
Senior Vice President and General Counsel

Director since 1988

Age: 59

First employed by the Company in 1988, Mr. Bring had been a partner in Arnold & Porter, Washington, DC, from 1967 to 1988. He became Associate General Counsel of the Company on January 1, 1988 and assumed his present position on July 1, 1988. He is a director of the Whitney Museum of American Art, the New York University Law Center Foundation, The New York City Opera and The Legal Aid Society. Mr. Bring is an ex-officio member of the Committee on Public Affairs and Social Responsibility.

Harold Brown
Counselor, Center for Strategic and International Studies, Washington, DC; Partner, Warburg Pincus & Co., New York, NY, venture capital

Director since 1983

Age: 66

Dr. Brown assumed his present position at the Center for Strategic and International Studies on July 1, 1992. Prior thereto and from 1984, he was chairman of the Foreign Policy Institute of the School of Advanced International Studies, The Johns Hopkins University. Dr. Brown has been a partner of Warburg Pincus & Co. since 1990. Dr. Brown is a director of Alumax Inc., CBS Inc., Cummins Engine Co. Inc., International Business Machines Corporation and Mattel, Inc. Dr. Brown is a member of the Compensation, Corporate Employee Plans Investment, Finance, Nominating and Public Affairs and Social Responsibility Committees.

William H. Donaldson
Chairman and Chief Executive Officer of the New York Stock Exchange, Inc., New York, NY

Director since 1979

Age: 62

Mr. Donaldson assumed his present position on January 2, 1991. Prior thereto and from 1980, he was chairman and chief executive officer of Donaldson Enterprises Incorporated. He serves as a director of Aetna Life and Casualty Co., Honeywell Inc., the Carnegie Endowment for World Peace, the Committee for Economic Development, the Lincoln Center for the Performing Arts, Inc. (of which he is Treasurer), the New York City Partnership and the Business Council of New York State and as a trustee of the Marine Corps Command & Staff College Foundation. Mr. Donaldson is chairman of the Corporate Employee Plans Investment Committee and a member of the Audit, Executive, Finance and Nominating Committees.

Paul W. Douglas
Retired; formerly Chairman and Chief Executive Officer of The Pittston Company, Greenwich, CT, coal and transportation services

Director since 1980

Age: 67

Mr. Douglas served as chairman and chief executive officer of the Pittston Company from 1984 to October 1, 1991. He serves as a director of Holmes Protection Group, Inc., The New York Life Insurance Company, MacMillan Bloedel Limited, Phelps Dodge Corporation and U.S. Trust Corporation. Mr. Douglas is a member of the Audit, Compensation and Executive Committees.

Jane Evans
Vice President and General Manager, Home & Personal Services Division, U.S. West Communications, Inc., Phoenix, AZ

Director since 1981

Age: 49

Ms. Evans assumed her present position in April 1991. From 1987 to 1989, she was a general partner of Montgomery Securities and from 1989 until 1991 president and chief executive officer of the InterPacific Retail Group. Ms. Evans serves as a director of BancOne-Arizona Corp., Edison Brothers Stores, Inc., Kaufman and Broad Home Corporation, The Heard Museum, the Ladies Professional Golf Association and the Phoenix United Way. She is a member of the Nominating and Public Affairs and Social Responsibility Committees.

Robert E. R. Huntley
Counsel, Hunton & Williams, Richmond, VA, attorneys

Director since 1976

Age: 64

Mr. Huntley became counsel to the firm of Hunton & Williams in 1988, having served as chairman, president and chief executive officer of Best Products Co., Inc. from 1987 to November 1988. Mr. Huntley serves as a director of Sprint Corp. He is chairman of the Audit Committee and a member of the Compensation, Finance and Public Affairs and Social Responsibility Committees.

Hamish Maxwell
Chairman of the Executive Committee

Director since 1974

Age: 67

First employed by the Company in 1954, Mr. Maxwell was Chairman of the Board and Chief Executive Officer from 1984 until his retirement in 1991. He serves as a director of Bankers Trust New York Corporation, Bankers Trust Company and The News Corporation Limited. Mr. Maxwell is chairman of the Executive Committee and a member of the Corporate Employee Plans Investment Committee.

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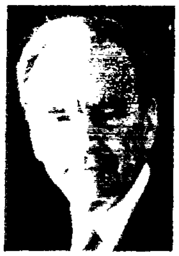
Michael A. Miles
Chairman of the Board and Chief Executive Officer

Director since 1989

Age: 54

First employed by Kraft, Inc. ("Kraft") in 1982 as President and Chief Operating Officer, Mr. Miles became President and Chief Operating Officer of the Kraft General Foods Group, now Kraft General Foods, Inc. ("Kraft General Foods") in March 1989, President and Chief Executive Officer in September 1989 and Chairman and Chief Executive Officer of Kraft General Foods in December 1989 when he became Vice Chairman of the Company. He became Deputy Chairman of the Company in April 1991, and Chairman of the Board and Chief Executive Officer of the Company on September 1, 1991. Mr. Miles is a director of Sears, Roebuck & Co., Dean Witter, Discover & Co., the Grocery Manufacturers of America, Inc. and the National Multiple Sclerosis Society and a trustee of The Conference Board and Northwestern University. Mr. Miles is a member of the Executive, Finance and Public Affairs and Social Responsibility Committees.



Rupert Murdoch
Chairman and Chief Executive of The News Corporation Limited, New York, NY, publishing, motion pictures and television

Director since 1989

Age: 63

Mr. Murdoch became publisher of News Limited of Australia in 1954 and in 1959 assumed the position of chief executive of the subsequently formed parent company, The News Corporation Limited, the interests of which include TV Guide and Twentieth Century Fox in the United States and The Times and Sunday Times in the United Kingdom. Mr. Murdoch is a member of the Compensation and Public Affairs and Social Responsibility Committees.

William Murray
President and Chief Operating Officer

Director since 1984

Age: 58

First employed by the Company in 1970, Mr. Murray became Vice Chairman in 1987. He assumed his present position in 1991. Mr. Murray is a member of the board of trustees of The Alvin Ailey American Dance Theater, the American Museum of Natural History, the Polytechnic University and the United Negro College Fund. He is a member of the Executive and Finance Committees and an ex-officio member of the Committee on Public Affairs and Social Responsibility.

John D. Nichols
Chairman and Chief Executive Officer, Illinois Tool Works, Glenview, IL

Director since 1992

Age: 63

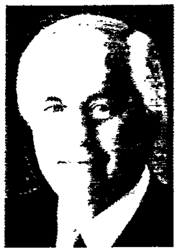
Mr. Nichols assumed his present position with Illinois Tool Works in 1986. He serves as a director of Household International Corporation, Rockwell International Corporation, Stone Container Corporation, the Art Institute of Chicago, Junior Achievement of Chicago, the Lyric Opera of Chicago and the Museum of Science and Industry and as a trustee of the Chicago Symphony Orchestra and the University of Chicago. He is a member of the Nominating and Public Affairs and Social Responsibility Committees.

Richard D. Parsons
Chairman and Chief Executive Officer, The Dime Savings Bank of New York, FSB, New York, NY

Director since 1990

Age: 45

Mr. Parsons became chief executive officer of The Dime Savings Bank of New York, FSB in July 1990, having served as president and chief operating officer from July 1988. He became chairman in 1991. From 1979 to July 1988, he had been a partner in the law firm of Patterson, Belknap, Webb & Tyler. Mr. Parsons also serves as a director of the Federal National Mortgage Association, Time-Warner, Inc., the Metropolitan Museum of Art and the Rockefeller Brothers Fund and as a trustee of Howard University. He is a member of the Audit, Executive and Public Affairs and Social Responsibility Committees.



Roger S. Penske
President, Penske Corporation, transportation service, and Chief Executive Officer, Penske Truck Leasing Corporation and Detroit Diesel Corporation, Detroit, MI

Director since 1991

Age: 56

Mr. Penske has been president of Penske Corporation since 1969. He is also chief executive officer of Detroit Diesel Corporation and Penske Truck Leasing Corporation. Mr. Penske serves as a director of American Express Company, Conner Peripherals, Inc., Gulfstream Aerospace Corporation and Lehman Brothers Holdings Inc. and as a trustee of the Henry Ford Museum and Greenfield Village. He is a member of the Finance Committee.

John S. Reed
Chairman of Citicorp and Citibank, N.A., New York, NY

Director since 1975

Age: 55

Mr. Reed assumed his present positions with Citicorp and Citibank, N.A. in 1984. He also serves as a director of Monsanto Company, as a member of the Corporation, Massachusetts Institute of Technology, and as a trustee of the Rand Corporation, the Spencer Foundation and Memorial Sloan-Kettering Cancer Center. He is chairman of the Compensation Committee and a member of the Audit, Corporate Employee Plans Investment, Executive, Finance and Nominating Committees.

John M. Richman
Counsel, Wachtell, Lipton, Rosen & Katz, Chicago, IL, attorneys

Director since 1988

Age: 66

First employed by Kraft in 1954, Mr. Richman served Kraft, Kraft General Foods and the Company in various executive capacities. Upon his retirement in 1989, he became counsel to Wachtell, Lipton, Rosen & Katz, a law firm which has performed and can be expected to continue to perform legal services for the Company. Mr. Richman is also a director of Continental Bank Corporation and Continental Bank, N.A., R.R. Donnelley & Sons Company, USX Corporation and the Evanston Hospital Corporation. He is chairman of the Chicago Symphony Orchestra and a trustee of Northwestern University. Mr. Richman is chairman of the Committee on Public Affairs and Social Responsibility and a member of the Corporate Employee Plans Investment, Executive and Nominating Committees.

Hans G. Storr
Executive Vice President and Chief Financial Officer and Chairman and Chief Executive Officer of Philip Morris Capital Corporation

Director since 1983

Age: 62

First employed by the Company in 1955, Mr. Storr was named its Chief Financial Officer in 1979. He was named a Senior Vice President in 1987 and an Executive Vice President in 1991. Since the formation of Philip Morris Capital Corporation in 1982, he has served as its Chief Executive Officer. Mr. Storr is a member of the American Institute of Certified Public Accountants and a director and treasurer of the International Tennis Hall of Fame. He is chairman of the Finance Committee and is a member of the Corporate Employee Plans Investment Committee.

Stephen M. Wolf
Chairman and Chief Executive Officer, UAL Corporation and United Air Lines, Inc., Chicago, IL

Director since November 24, 1993

Age: 52

Mr. Wolf assumed his present position with UAL Corporation and United Air Lines, Inc. in 1987. He serves as a director of Chicago-Cities in School and the Rush-Presbyterian-St. Luke's Medical Center and as a trustee of the Art Institute of Chicago, the Chicago Symphony Orchestra, The Conference Board and Northwestern University.

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Compensation Committee Interlocks and Insider Participation

Mr. Huntley (who is a member of the Compensation Committee) is counsel to Hunton & Williams, which firm acts as counsel to the Company. In 1993, the Company paid Hunton & Williams fees of $7,129,487. Messrs. Brown, Douglas, Murdoch and Reed are the other members of the Compensation Committee.

Compensation of Directors

Directors who are full-time employees of the Company receive no additional compensation for services as a director. In 1993, non-employee directors received an annual retainer of $26,000 and fees of $1,000 for each Board meeting attended, $1,000 ($2,000 for the chairman) for each meeting attended of the Audit, Compensation, Corporate Employee Plans Investment, Executive, Finance, Nominating and Public Affairs and Social Responsibility Committees and $500 ($1,000 for the chairman) for each other committee meeting attended. The chairman of the Compensation Committee receives $10,000 for additional services rendered in connection with certain of the Company's compensation plans.

Each director who is not employed by the Company and was not so employed on January 1, 1990 receives annually on May 1 a share distribution equal to the lesser of (i) 400 shares or (ii) that number of shares of Common Stock having an aggregate fair market value equal to 100% of the cash retainer fee paid during the preceding twelve months. On May 1, 1993, each such director received 400 shares of Common Stock.

The 1992 Compensation Plan for Non-Employee Directors permits a director to defer meeting fees and all or a part of the retainer fee. Deferred amounts are "credited" to an unfunded account and may be "invested" in four "investment choices" which are the same as those offered under the Philip Morris Deferred Profit-Sharing Plan and which are used to determine the "earnings" that are credited for bookkeeping purposes. Subject to certain restrictions, the director is permitted to take cash distributions, in whole or in part, from his or her account either prior to or following termination of service.

Under the Pension Plan for Directors, any director who was not an employee of the Company, who ceases to be a director at his or her normal retirement date and who has completed five years of accredited service is entitled until death to an annual pension (payable monthly) equal to the annual cash retainer in effect on his or her retirement date plus 25% of attendance fees for up to twenty-four Board meetings earned during the two years before retirement. A qualifying director retiring before his or her normal retirement date but after age 60 and after completing five years of accredited service is entitled for a period equal to his or her accredited service to monthly pension payments. In the event of a change in control, a retiring director, not otherwise eligible for a pension benefit, will receive monthly payments for a period equal to his or her accredited service.

The Company has entered into employment agreements with each of its officer-directors as described below under "Executive Compensation—Certain Agreements."

Ownership of Equity Securities

The following table sets forth information, as of February 1, 1994, as to the beneficial ownership of Common Stock of the Company, including shares of Common Stock as to which a right to acquire ownership within sixty days exists (for example, through the exercise of stock options or through various trust arrangements), of each director, each nominee for director, each executive officer named in the Summary Compensation Table and of the directors and executive officers of the Company as a group. The beneficial ownership of each director, nominee and officer and of the group is less than 1% of outstanding shares.

Name	Sole Voting and Investment Power (1)	Other (2)	Aggregate Total
Elizabeth E. Bailey	4,335		4,335
Geoffrey C. Bible	252,167	11,200	263,367
Murray H. Bring	120,973	9,800	130,773
Harold Brown	2,335	1,200	3,535
J.A. Cordido-Freytes	6,735		6,735
William H. Donaldson	10,735	932	11,667
Paul W. Douglas	9,535		9,535
Jane Evans	3,713		3,713
Robert E.R. Huntley	7,435	1,200	8,635
John M. Keenan	168,983	9,800	178,783
Hamish Maxwell	474,582	219,500	694,082
Richard P. Mayer	183,383		183,383
Michael A. Miles	858,467	33,600	892,067
T. Justin Moore, Jr.	11,145	17,300	28,445
Rupert Murdoch	1,635	350	1,985
William Murray	385,056	28,000	413,056
John D. Nichols	1,900		1,900
Richard D. Parsons	1,835		1,835
Roger S. Penske	2,035		2,035
John S. Reed	12,477		12,477
John M. Richman	28,185		28,185
Hans G. Storr	364,289	27,600	391,889
Stephen M. Wolf	1,000		1,000
Group	3,424,457	382,482	3,806,939

(1) Includes maximum number of shares subject to purchase before April 1, 1994 upon the exercise of stock options as follows: G.C. Bible, 219,000; M.H. Bring, 98,610; J.M. Keenan, 148,666; H. Maxwell, 100,000; R.P. Mayer, 182,480; M.A. Miles, 772,200; W. Murray, 54,870; H.G. Storr, 87,320; and group, 2,181,066.

(2) Includes shares held in certain fiduciary capacities (including such holdings by a spouse) and shares owned by spouses, minor children and other relatives sharing the home of the nominee, director or officer. With the exception of Mr. Moore, beneficial ownership of these shares is disclaimed by all named individuals. Mr. Moore disclaims any beneficial interest in 1,300 shares held by his spouse. Also includes shares held jointly with spouse and shares of restricted stock.

EXECUTIVE COMPENSATION

Compensation Committee Report on Executive Compensation

To Our Stockholders:

The Company's mission is to be the most successful consumer packaged goods company in the world. The Committee, whose members consist entirely of non-employee directors, fully supports the Company's mission. In furtherance of that mission, the Committee is responsible for administering total compensation programs which will enable the Company to:

- Hire, develop, reward and retain the highest quality of managers possible;
- Emphasize the relationship between pay and performance by placing a significant portion of compensation at risk and subject to the achievement of financial goals and objectives;
- Maximize real growth-driven financial performance, balancing appropriately the short and long-term goals of the Company; and
- Align the interests of managers with those of stockholders through the use of stock options to link a significant portion of compensation to increases in stockholder value.

Components of Compensation. The Committee relates total compensation levels for the Company's senior executives to the compensation paid to executives of the peer group of companies set forth on page 12. All elements of compensation are valued when making comparisons to this peer group. The Committee takes into account both the performance and size of the Company relative to the performance and size of the companies in the peer group.

The Committee believes that compensation for executive officers should be linked to performance. Accordingly, the compensation of the Company's senior executives should be at or near the top quartile of compensation paid to executives of the peer group when Company performance exceeds that of the peer group. When Company performance is at or near the median of the peer group, total compensation should be at or near the median of the peer group. Should the Company's performance fall below the performance of the peer group, the compensation paid to the senior executives should be below the median compensation paid to the peer group. To achieve a further correlation between executive compensation and performance, approximately two-thirds of the compensation paid to the executive officer group is variable incentive compensation. Variable incentive compensation comprises stock-based and cash incentives and is paid through annual cash bonuses, stock option grants and long-term performance awards.

By design, approximately 50% of a senior executive's variable at-risk compensation consists of stock based compensation in the form of stock options with an exercise price at, or in some cases above, fair market value on date of grant. Historically, as the Company's stock price has appreciated from year to year, stockholder value has increased and the executives' stock related compensation has also increased. In 1993, actions were taken to reposition the Company for long term growth and profitability. As the result of these actions, there was a decline in the Company's stock price and the value of shares held by many stockholders. Correspondingly, there was also a decline in the value of the stock owned outright and options held by the executives of the Company.

The Company's policy is to qualify compensation paid to its executive officers for deductibility for Federal income tax purposes to the extent feasible. However, under certain circumstances, elements of annual compensation, such as perquisites and income resulting from payments made pursuant to plans that do not discriminate in favor of executive officers, may cause an executive officer's income to exceed deductible limits. In addition, to maintain a competitive position within the peer group, the Committee retains the authority to authorize other payments, including salary and bonuses, that would not be deductible.

Base Salary. By design, one-third of executive compensation, base salary, is based on an evaluation of a variety of factors including level of responsibility, time in position, prior experience, individual performance and a comparison of salaries paid within the peer group.

In 1993, Mr. Miles and Mr. Murray, at their own recommendation and with the agreement of the Compensation Committee, did not receive base salary increases. As a result, Mr. Miles's base compensation was 4% below the median and 17% below the top quartile of base compensation paid to the chief executive officers of the peer group. The salaries reported in the Summary Compensation Table for Messrs. Miles and Murray for 1993 show an increase over 1992 only because of 1992 salary increases which were implemented on July 1, 1992.

Annual Incentives. Annual cash bonuses are provided to senior executives and middle management employees based, at the corporate level, upon revenues, operating income, return on equity, net earnings and earnings per share as measured against the financial results of the previous year as well as against the strategic business plan. At the operating company level, revenues, operating income, return on management investment and volume are measured against the prior year and the strategic business plan.

For 1993, the Committee awarded bonuses based on a qualitative evaluation of overall corporate financial performance and operating company performance. Each named executive officer's bonus was based on either a corporate or an operating company rating, which was then adjusted by individual performance as measured against stated goals. For example, Mr. Bible's award was determined based on an evaluation of the financial performance and the achievement of strategic initiatives of Philip Morris' worldwide tobacco operations. Mr. Mayer's award was based on an evaluation of Kraft General Foods North America's financial performance and achievement of strategic initiatives and Mr. Keenan's on that of Kraft General Foods International. The awards for Messrs. Miles, Murray and Storr were based on overall company performance. All individual bonuses also reflect individual performance against each executive's individual goals for the year.

Mr. Miles's 1993 annual incentive award of $345,000 was 50% less than the target award established by the Committee and was 62% less than the award he received in 1992. Mr. Miles's 1993 award primarily reflects 1993 operating income which was less than that of 1992. This reduction in operating income was primarily the result of the strategic decision taken to reduce the price of *Marlboro* and other cigarette brands. Upon review, the Committee believes the result of the actions taken to reposition the domestic cigarette business for long term growth and profitability is likely to be positive over time.

Mr. Miles's base salary plus annual bonus resulted in a cash compensation package that placed him 25% below the median of cash compensation paid to the chief executive officers of the peer group.

The Committee has established objective performance goals for annual incentive bonuses for the year 1994 for the officers named in the Summary Compensation Table but has reserved the discretion to reduce or eliminate the amount payable even if the performance goals are in fact attained. Accordingly, it is believed that any bonuses paid upon attainment of these performance goals will be deductible for Federal income tax purposes.

Long-Term Incentives. The Company's 1992 Incentive Compensation and Stock Option Plan (the "Plan") provides that stock options and long-term performance awards may be granted to individuals who contribute to the management, growth and profitability of the Company.

- **Stock Options.** Stock options are used as the primary long-term incentive vehicle. The Committee believes that its stock option program is very important in enabling the Company to attract and retain the highest quality managers.

The size of stock option grants is based primarily on competitive practice and is generally targeted to be at the 55th percentile of the peer group. However, the size of stock option awards can be adjusted upward or downward based on a subjective evaluation of individual contribution and potential. The Committee's objective is to deliver a competitive award opportunity, based on the aggregate exercise price of the shares subject to the option. As a result, the number of shares underlying stock option awards varies and is dependent on the stock price on the date of grant.

In granting a stock option for 125,000 shares to Mr. Miles in 1993, the Committee considered Mr. Miles's individual performance and the compensation practices of the peer group.

The Committee has been advised that compensation arising from the exercise of outstanding stock options as well as options to be granted under the Plan will be deductible for Federal income tax purposes.

- **Long-Term Performance Awards.** Long-Term Performance Awards focus on both corporate and operating unit performance during a three-year performance cycle. The amount of the award earned by each participant at the corporate level is based entirely upon corporate performance. For participants in operating units, corporate and operating unit performance are weighted equally in determining the amount of the award.

Awards have been granted for the three-year cycle ending December 31, 1995. The Committee will determine in 1996 the actual amount of the awards earned based upon a subjective evaluation of quantitative and qualitative performance objectives linked to the following seven key strategic initiatives:

- Generating volume increases;
- Optimizing product/price value to meet consumer expectations;
- Revitalizing marketing skills and advertising;
- Maximizing productivity and synergy;
- Building management depth (succession planning);
- Addressing legal, legislative and regulatory challenges; and
- Simplifying the organizational structure.

The Committee will focus on the success in achieving strategic initiatives and related financial objectives and will also consider performance of the Company compared to the peer group. Adjustments can also be made to reflect individual performance.

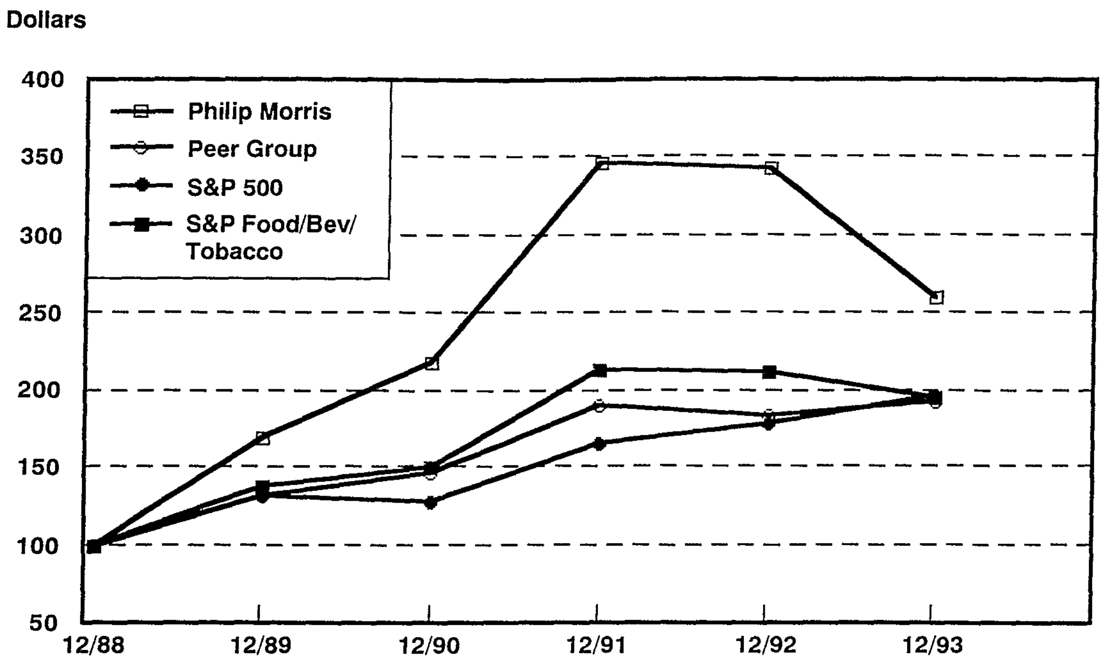
Target awards are expressed as a percentage of total cash compensation, base salary and annual bonuses, earned during the three-year performance cycle. Target award levels are established based upon evaluation of competitive practice. The awards actually earned can range from 0% to 180% of the target award.

The Committee has been advised that as a result of the deferral of payment, awards, when paid, will be deductible by the Company for Federal income tax purposes.

COMPENSATION COMMITTEE

John S. Reed, *Chairman*
Harold Brown
Paul W. Douglas
Robert E. R. Huntley
Rupert Murdoch

Comparison of Five-Year Cumulative Total Return (1):



	1988	1989	1990	1991	1992	1993
Philip Morris Companies Inc.	100.00	169.08	217.42	346.32	342.99	259.83
Peer Group	100.00	131.45	146.97	189.95	184.18	192.52
S&P 500	100.00	131.59	127.49	166.17	178.81	196.75
S&P Food/Bev/Tobacco	100.00	137.32	150.35	213.24	211.63	194.60

Assumes $100 invested on December 31, 1988 in Philip Morris Common Stock, S&P 500 Index, S&P 500 Beverages (Alcoholic), S&P 500 Foods and S&P 500 Tobacco Indices (2) and Peer Group (3).

(1) Total return assumes reinvestment of dividends on a quarterly basis.

(2) No standardized industry index is considered a comparable peer group. The following companies constitute the S&P 500 Beverages (Alcoholic), S&P 500 Foods and S&P 500 Tobacco Indices: Adolph Coors Company, American Brands, Inc., Anheuser-Busch Companies, Inc., Archer-Daniels-Midland Company, Borden, Inc., Brown-Forman Corporation, Campbell Soup Company, ConAgra, Inc., CPC International Inc., General Mills, Inc., Gerber Products Company, H.J. Heinz Company, Hershey Foods Corporation, Kellogg Company, Pet Incorporated, The Quaker Oats Company, Ralston Purina Company, Sara Lee Corporation, The Seagram Company Ltd., UST Inc. and Wm. Wrigley Jr. Company. Although the Company is a component of the S&P 500 Tobacco Index, it has been excluded for the purpose of this presentation.

(3) The Peer Group consists of the following companies, selected on the basis of size, complexity and return to stockholders: American Brands, Inc., American Home Products Corporation, Amoco Corporation, Anheuser-Busch Companies, Inc., ARCO, The Boeing Company, Bristol-Myers Squibb Company, Chevron Corporation, The Coca-Cola Company, ConAgra, Inc., CPC International, Inc., E.I. du Pont de Nemours and Company, Exxon Corporation, General Electric Company, General Mills, Inc., H.J. Heinz Company, International Business Machines Corporation, Johnson & Johnson, Merck & Co., Inc., Mobil Corporation, PepsiCo, Inc., Pfizer, Inc., The Procter & Gamble Company, RJR Nabisco, Inc., Sara Lee Corporation and Texaco Inc. Because of a change in the nature of its business which occurred in 1993, Ralston Purina Company is no longer included in the Peer Group.

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